
Memorandum



Date: December 2, 2002

To: Rural Business-Cooperative Service, USDA

From: Ken Reiners - AgStar Financial Services, ACA

Subject: Written comments regarding the public meeting on 12/3/02 for “expanding Rural Renewable Energy Systems”

AgStar Financial Services, ACA (AgStar) is a cooperatively owned financial services company headquartered in Mankato, Minnesota. AgStar serves over 16,000 plus member/owners (most of whom are farmers) in Minnesota and Northwest Wisconsin. AgStar is part of the Farm Credit System, and has been active in promoting education in renewable energy development by farmers – both biomass (methane digesters) and wind energy systems. In addition, AgStar has financed both types of renewable energy systems. The following are AgStar’s written comments to the questions the RBS posed as they relate to ‘Section 9006 of the Farm Security and Rural Investment Act of 2002’.

Q. The Act stipulates that financial assistance may be provided to purchase renewable energy systems and make energy efficiency improvements.

What projects should be eligible for funding?

Should certain types of projects receive priority for funding?

Should preference be given to new, innovative technologies or proven technologies?

A. The amount of money available annually for Section 9006 is quite limited (\$23 million) relative to the need. As such, not all legitimate needs and requests can be funded. AgStar believes that the funding process should be oriented toward achieving the greatest impact with the limited funding available. Towards that end, we would urge that funding be directed toward proven technologies where there are existing examples of the technology in commercial application today. At a minimum, there should be a commercial scale prototype of the technology in operation, with records that demonstrate the technology and its’ application is both technologically and economically feasible. The projects that we feel best meet these criteria are wind turbine energy systems, and methane digesters. We would argue that these technologies are both proven and have the greatest immediate impact to fulfill the intended mission under Section 9006 – with the limited money available.

Q. Loan guarantees, direct loans, and grant programs are authorized under the legislation. What types of financial assistance is most in need (i.e., grants, direct loans, or loan guarantees)?

A. The financial assistance that would do the least good and we would strongly discourage given the limited money available is direct loans. Grants serve a role for the initial funding of project feasibility studies and the writing of a business plan, where in some cases an outside expert needs to be brought in to help with both the feasibility study and the preparation of a business plan. In many cases, these are precursors before both equity and debt capital can be raised to fund the project.

In addition, loan guarantees can often be the inducement to get a rural lender to finance a renewable energy system, where the lender is either unfamiliar with the technology or whether the economics can reliably generate a positive cash flow. Involving local lenders also serves to demonstrate that the project has been independently reviewed and is feasible. AgStar would encourage that both grants and loan guarantees be allowed under Section 9006.

Providing financial assistance in the form of loan guarantees would parallel the approach taken in the Rural Development Title of the Act, specifically those provisions creating the Rural Business Investment Program. That program authorizes USDA to enter into agreements with Rural Business Investment Companies (RBICs) to encourage investments in smaller enterprises in rural areas. Funds in the amount of \$280 million have been earmarked for guarantees to RBIC's. Structuring the RBS program in a similar fashion would best serve the need for investments in rural businesses.

Q. Section 9006 states that, in determining the amount of the grant or loan, the Secretary shall take into consideration as applicable:

- a. the type of renewable energy system to be purchased;*
- b. the estimated quantity of energy to be generated by the renewable energy system;*
- c. the expected environmental benefits of the renewable energy system;*
- d. the extent to which the renewable energy system will be applicable;*
- e. the amount of energy savings expected to be derived from the activity, as demonstrated by an energy audit comparable to an energy audit under Section 9005 of the Act;*
- f. the estimated length of time it would take for energy savings generated by the activity to equal the cost of the activity; and*
- g. other factors as appropriate.*

- *What other factors, if any, should the Department consider in determining the amount of grant or loan?*
- *Should certain types of projects or geographic areas be targeted and given financial preference?*

A. AgStar believes there is strong rural economic development potential with the development of renewable rural resources – wind & methane from farm animal manure – for energy generation. AgStar would like to see preference given to projects where the owners of the project are primarily farmers and the project is located in a rural area (as opposed to a metropolitan area). These types of value-added activities serve as a potential additional source of income for the nations farmers, giving them needed diversity in sources of income, and

lessening any dependence of Federal agricultural support farm programs. So the other factors AgStar would like to see considered are:

1. Do farmers primarily own the project? And,
2. Is the project located in a rural agricultural area?

Q. The Act states that the amount of grant shall not exceed 25 percent of the cost of the activity funded under the program. Additionally, the combined amount of a grant and loan made or guaranteed shall not exceed 50 percent of the cost of the activity funded.

- What are various sources of program matching funds (i.e., other Federal, State, local or private programs)?

A. The State of Minnesota through the State Department of Agriculture, has limited grant money available for full time farmers, in the feasibility analysis for both wind energy and biomass systems. Occasionally, there may be money available from the local power company for systems with proven energy savings – often these involve energy efficient lighting, insulation, or certain types of systems that clearly have an energy savings payback.

These comments were submitted by:

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